

**Delaware Transportation Authority
Transportation Trust Fund**

**Financial Statements and
Independent Auditors' Report**

June 30, 2005 and 2004

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**Delaware Transportation Authority
Transportation Trust Fund**

Management's Discussion and Analysis

This section of the Delaware Transportation Authority (the Authority) Transportation Trust Fund's (the Trust Fund) annual financial statements presents our discussion and analysis of the Trust Fund's financial performance during the fiscal year ended June 30, 2005.

Background

In 1987, to facilitate the Authority's development of a unified transportation system in the State of Delaware (the State) and to take advantage of the Authority's broad financing powers, the Trust Fund was created to consolidate and dedicate transportation-related revenue to transportation projects and to provide a flexible mechanism to handle the increasing funding requirements over time for all transportation projects in the State. The Trust Fund is the State's financing vehicle for transportation, operating, and capital expenditures. Funding for such expenditures is derived from bond proceeds, excess Trust Fund revenue, and cash balances.

The Trust Fund has pledged the following revenue to secure their outstanding bonds: Motor Fuel Taxes, Delaware Turnpike Tolls and Concessions, Motor Vehicle Document and Registration Fees, Miscellaneous Transportation Revenue, including operator license and titling fees, and investment earnings. Route 1 (SR-1) toll road revenue and certain miscellaneous revenues, including transfers from the State of Delaware General Fund, have not been pledged and, therefore, are not used to secure the Trust Fund's bonds.

Financial Highlights

- Motor vehicle document fee revenue was \$65.7 million, a 5.1% increase over fiscal year 2004.
- Motor vehicle registration fee revenue was \$30.2 million, a 6.7% increase over fiscal year 2004.
- Other motor vehicle revenue totaled \$20.3 million, a 37.2% increase over fiscal year 2004.
- Toll revenues on SR-1 reached \$30.2 million, an 11.4% increase over fiscal year 2004, and traffic increased 9.4% to 35.3 million vehicles.
- Total Trust Fund operating revenues increased to \$329.9 million, a 2.6% increase over fiscal year 2004.

**Delaware Transportation Authority
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Management's Discussion and Analysis (Continued)

- The Authority took advantage of the low interest rates and went to the bond market in October 2004 by issuing \$100.2 million of new money bonds and refunding \$67.4 million.
- In May 2005, the Authority issued a \$40 million General Obligation Bond Anticipation Note to PNC Bank to provide interim financing for the Department of Transportation's (the Department) capital program in anticipation of issuance of long-term bonds. The note is due and payable on October 3, 2005.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, and 4) other supplementary information.

The financial statements provide both long-term and short-term information about the Trust Fund's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Trust Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in net assets.

Financial Analysis of the Trust Fund

Balance Sheets

The Trust Fund's total assets decreased 2.2% to \$1,218.9 million, and total liabilities increased 9.3% to \$971.7 million. Net assets at June 30, 2005 were \$247.2 million, a 30.9% decrease from June 30, 2004.

**Delaware Transportation Authority
Transportation Trust Fund**

Management's Discussion and Analysis (Continued)

Transportation Trust Fund's Net Assets
(in millions of dollars)

	<u>2005</u>	<u>2004</u>	Percentage Change <u>2005-2004</u>
Current assets	\$ 147.3	\$ 159.1	(7.4)
Capital assets	992.1	984.2	0.8
Other noncurrent assets	<u>79.5</u>	<u>103.0</u>	(22.8)
Total assets	<u>\$1,218.9</u>	<u>\$1,246.3</u>	(2.2)
Current liabilities	\$ 127.1	\$ 86.5	46.9
Bonds payable – long-term	803.3	761.6	5.5
Other noncurrent liabilities	<u>41.3</u>	<u>40.7</u>	1.5
Total liabilities	<u>\$ 971.7</u>	<u>\$ 888.8</u>	9.3
Net assets			
Invested in capital assets, net of debt	\$ 90.4	\$ 168.7	(46.4)
Unrestricted	<u>156.8</u>	<u>188.8</u>	(16.9)
Total net assets	<u>\$ 247.2</u>	<u>\$ 357.5</u>	(30.9)

The decrease in current and noncurrent assets is attributed to a decrease in investments due to increased spending and delayed borrowing. The increase in current liabilities is primarily due to the \$40 million general obligation bond anticipation note.

Change in Net Assets

The decrease in net assets at June 30, 2005 was \$110.3 million or 30.9% as compared to June 30, 2004. The Trust Fund's total operating revenues increased 2.6% to \$329.9 million, and total operating expenses increased 23.1% to \$476.9 million.

**Delaware Transportation Authority
Transportation Trust Fund**

Management's Discussion and Analysis (Continued)

Change in the Transportation Trust Fund's Net Assets
(in millions of dollars)

	<u>2005</u>	<u>2004</u>	Percentage Change <u>2005-2004</u>
Operating revenues			
Turnpike revenues	\$ 90.9	\$ 90.0	1.0
Motor fuel tax	113.7	112.4	1.2
Motor vehicle document fee	65.7	62.5	5.1
Motor vehicle registration fee	30.2	28.3	6.7
Other motor vehicle revenue	20.3	14.8	37.2
International Fuel Tax Agreement	4.2	4.8	(12.5)
Federal highway reimbursements	-	1.6	(100.0)
Property management revenue	0.1	0.1	-
Miscellaneous revenue	<u>4.8</u>	<u>7.0</u>	(31.4)
Total operating revenues	\$ <u>329.9</u>	\$ <u>321.5</u>	2.6
Operating expenses			
Expressways Operations/Toll			
Administration and interstate			
operating expenses	\$ 14.3	\$ 15.1	(5.3)
Claims and judgments	0.2	0.2	-
Expenses in accordance with			
Trust Agreement	460.8	371.3	24.1
State General Fund debt service	0.6	0.6	-
Depreciation	0.2	0.2	-
Financing expenses	<u>0.8</u>	<u>-</u>	100.0
Total operating expenses	\$ <u>476.9</u>	\$ <u>387.4</u>	23.1
Operating loss	\$(147.0)	\$ (65.9)	(123.1)
Nonoperating expenses	(30.7)	(30.5)	(0.7)
Capital contributions	<u>67.4</u>	<u>37.1</u>	81.7
Change in net assets	(110.3)	(59.3)	(86.0)
Total net assets - beginning of year	<u>357.5</u>	<u>416.8</u>	(14.2)
Total net assets - end of year	\$ <u>247.2</u>	\$ <u>357.5</u>	(30.9)

**Delaware Transportation Authority
Transportation Trust Fund**

Management's Discussion and Analysis (Continued)

The \$5.5 million increase in other motor vehicle revenue is primarily due to a fee increase for record sales from \$4 to \$15 per record and a fee increase for certified records from \$8 to \$20 per record. The \$89.5 million increase in expenses in accordance with Trust Agreement is due to additional capital and operational spending by the Department. In fiscal year 2004, the State elected to operate its own E-ZPass operations and received approximately \$7.6 million from the regional consortium to cover various transition costs. Of that amount, \$2.7 million is included in current year revenues and expenses.

During fiscal year 2005, the following capital contributions (\$67.4 million) were received from the General Fund: \$2.5 million of Division of Revenue, Motor Vehicle Dealer/Lessor License and Document Fees, annual \$10 million escheat appropriation, \$2.8 million for the DMV, \$15 million for the Port of Wilmington, \$15 million for Glenville disaster recovery, and \$22.1 million for Green infrastructure program.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Trust Fund had invested \$994.5 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Trust Fund's net capital assets at June 30, 2005 totaled \$992.1 million. This amount represents a net increase (including additions and disposals, net of depreciation) of \$7.9 million, a 0.8% increase over June 30, 2004.

The State is using the "Modified Approach" for determining condition assessments on their roads and bridges. The modified approach requires that the State initially set a percentage benchmark for maintaining their infrastructure in good or better condition and report at least every three years on their condition assessments.

It is the State's policy to maintain at least 75% of their highways and bridge systems at a good or better condition level as follows:

The condition of the road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

**Delaware Transportation Authority
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Management's Discussion and Analysis (Continued)

The condition of the bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9, with 5 being assessed a fair rating.

The Department performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part, every two years.

At December 31, 2004, 94% of the Trust Fund's roadway condition assessments were in the good or better category, an 3.7% increase over 2003; 87.9% of the bridge structures were in the good or better category, a 1.8% decrease from 2003, and 96.5% of the bridge deck ratings were in the good or better category, a 0.5% decrease over 2003.

Estimated costs for roadway preservation and maintenance for the year ended June 30, 2005 were \$4.5 million, and actual costs were \$10.5 million. The difference of \$6 million is primarily attributed to increased material prices for steel, lumber, and concrete.

Debt Administration

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Authority to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2005, the Authority had \$861.7 million in revenue bonds outstanding, a 5.7% increase over June 30, 2004. During the past year, \$100.2 million of new money bonds were issued, and \$67.4 million of bonds were refunded. Of the ten outstanding bond issues, one has an AA rating from S&P and an A1 rating from Moody's. The remaining nine issues are rated AAA by S&P and Aaa by Moody's.

**Delaware Transportation Authority
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Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

Steadily rising interest rates will ultimately slow the economy's growth. If policymakers are able to raise rates in a measured way, then the economy's transition to slower growth will be a graceful one. Rate-sensitive parts of the economy, such as the vehicle and housing markets, will cool, but will not cave. Risks still abound for the housing market as long-term interest rates have only just begun to edge upward. So far the shift in rates has been moderate and orderly, which is consistent with consensus forecasts. But should they spike upward swiftly, there remains considerable risk for price corrections. Delaware's housing economy has helped fuel the Delaware economy significantly the last few years. Auto sales moderation will continue into next year as interest rates gradually push higher. The outlook will be determined by several factors: the strength of income and job growth, affordability (the interaction between prices, financing costs, and income), and the extent of spent-up demand. However, continued rises in input costs, particularly energy costs, do pose a serious downside risk for manufacturers, and cutbacks in other expenditures, such as labor, could be stepped up in order to absorb the higher costs. The principal near-term threats to this sanguine outlook, including mounting political uncertainty and higher energy prices, are significant.

The Department's fiscal year 2006 Operating Annual Budget adopted by the General Assembly in June 2005 totals \$293.9 million and the fiscal year 2006 Capital Improvement Act totals \$393.1 million in State authorized funds. The Capital Improvement Act authorizes funding of the following improvements: \$345 million of Road System, \$21.6 million of Grants and Allocations, \$.4 million of Transit System, and \$26.1 million for Support System. The Capital Improvement Act authorizes an additional \$91 million in federal funding and \$1 million from other sources. The spending of these capital authorizations will occur over several years. The capital spending forecast for fiscal year 2006 is \$501.1 million, inclusive of \$266 and \$235.1 million in State and federal, respectively. The Grants-In-Aid Act amended the Operations Act by transferring support of \$14 million from the General Fund to cover the Department's operations' cost in the maintenance and operations' budget unit. Additionally, in this year's authorizations, the Department will receive a \$72.9 million transfer from the Office of Management and Budget (OMB) to support the Department's operations.

**Delaware Transportation Authority
Transportation Trust Fund**

Management's Discussion and Analysis (Continued)

Contacting the Trust Fund's Financial Management

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Trust Fund's finances and to demonstrate the Trust Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

Independent Auditors' Report

To the Administrators
Delaware Transportation Authority
Transportation Trust Fund
Dover, Delaware

We have audited the accompanying financial statements of the business-type activities of the Delaware Transportation Authority, Transportation Trust Fund as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Delaware Transportation Authority, Transportation Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the Delaware Transportation Authority, Transportation Trust Fund are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities that is attributable to the transactions of the Delaware Transportation Authority, Transportation Trust Fund. They do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Delaware Transportation Authority, Transportation Trust Fund as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Administrators

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2005, on our consideration of the Delaware Transportation Authority, Transportation Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis and required supplementary information for governments that use the modified approach for infrastructure assets on pages 4 through 11 and 42 through 43 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Delaware Transportation Authority, Transportation Trust Fund. The additional information listed in the table of contents and presented on pages 47 through 57 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion or any other form of assurance on the additional information.

A handwritten signature in black ink, appearing to read "Sunter CPA Group", is written over a horizontal line.

August 18, 2005
Newark, Delaware

**Delaware Transportation Authority
Transportation Trust Fund**

Balance Sheets

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,502,870	\$ 1,750,449
Investments - at fair value	142,849,132	155,127,546
Accrued interest receivable	800,000	921,036
Accounts receivable	<u>1,121,266</u>	<u>1,278,820</u>
Total current assets	147,273,268	159,077,851
NONCURRENT ASSETS		
Capital assets		
Infrastructure and land	986,604,489	978,484,247
Buildings and land improvements	<u>7,847,309</u>	<u>7,847,309</u>
	994,451,798	986,331,556
Less: accumulated depreciation	<u>2,341,609</u>	<u>2,149,564</u>
Capital assets	992,110,189	984,181,992
Investments - at fair value	49,247,422	73,159,607
Accrued interest receivable	591,895	1,259,707
Loans receivable	<u>29,663,371</u>	<u>28,631,246</u>
Total noncurrent assets	<u>1,071,612,877</u>	<u>1,087,232,552</u>
 TOTAL ASSETS	 <u><u>\$ 1,218,886,145</u></u>	 <u><u>\$ 1,246,310,403</u></u>

See notes to financial statements.

**Delaware Transportation Authority
Transportation Trust Fund**

Balance Sheets

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts payable	\$ 6,803,252	\$ 9,062,421
Accrued payroll payable	261,044	226,389
Compensated absences payable	100,409	64,712
Deferred revenue - E-ZPass	366,419	3,031,991
Note payable	40,000,000	-
Bonds payable	58,445,000	53,920,000
Interest payable	<u>21,176,509</u>	<u>20,238,072</u>
Total current liabilities	127,152,633	86,543,585
NONCURRENT LIABILITIES		
Compensated absences - net of current portion	197,552	214,526
Claims and judgments	11,325,229	11,083,932
Bonds payable - net of current portion	803,265,000	761,585,000
Bond issue premium - net of accumulated amortization	<u>29,782,525</u>	<u>29,382,368</u>
Total noncurrent liabilities	<u>844,570,306</u>	<u>802,265,826</u>
Total liabilities	971,722,939	888,809,411
NET ASSETS		
Invested in capital assets - net of related debt	90,400,189	168,676,992
Unrestricted	<u>156,763,017</u>	<u>188,824,000</u>
Total net assets	<u>247,163,206</u>	<u>357,500,992</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,218,886,145</u></u>	<u><u>\$ 1,246,310,403</u></u>

**Delaware Transportation Authority
Transportation Trust Fund**

**Statements of Revenues, Expenses, and
Change in Net Assets**

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Pledged revenue		
Turnpike revenue	\$ 60,703,200	\$ 62,861,026
Motor fuel tax revenue	113,663,312	112,434,740
Motor vehicle document fee revenue	65,700,234	62,545,831
Motor vehicle registration fee revenue	30,188,939	28,342,067
Other motor vehicle revenue	20,290,958	14,774,746
International Fuel Tax Agreement revenue	<u>4,253,888</u>	<u>4,790,452</u>
Total pledged revenue	294,800,531	285,748,862
Toll revenue - Delaware SR-1	30,161,375	27,100,947
Federal highway reimbursements	-	1,570,112
Property management revenue	173,854	147,090
E-ZPass expense reimbursements	2,665,572	4,246,306
Miscellaneous revenue	<u>2,106,609</u>	<u>2,713,215</u>
Total operating revenues	329,907,941	321,526,532
OPERATING EXPENSES		
Expressways Operations/Toll Administration and interstate operating expenses	14,255,321	15,178,345
Claims and judgments	241,297	170,095
Expenses in accordance with Trust Agreement	460,838,313	371,331,250
State General Fund debt service	546,089	621,553
Depreciation	192,045	192,045
Financing expenses	<u>833,029</u>	<u>2,760</u>
Total operating expenses	<u>476,906,094</u>	<u>387,496,048</u>
OPERATING LOSS	(146,998,153)	(65,969,516)

Continued...

**Delaware Transportation Authority
Transportation Trust Fund**

**Statements of Revenues, Expenses, and
Change in Net Assets (Continued)**

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
NONOPERATING REVENUES (EXPENSES)		
Pledged revenue - income from investments (net of fees)	\$ 6,019,636	\$ 5,981,028
Net increase (decrease) in the fair value of investments	156,843	(2,099,056)
Accrued interest from bond sales	401,223	-
Interest expense	<u>(37,332,824)</u>	<u>(34,357,809)</u>
Excess of nonoperating expenses over revenues	<u>(30,755,122)</u>	<u>(30,475,837)</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(177,753,275)	(96,445,353)
CAPITAL CONTRIBUTIONS	<u>67,415,489</u>	<u>37,061,889</u>
CHANGE IN NET ASSETS	(110,337,786)	(59,383,464)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>357,500,992</u>	<u>416,884,456</u>
TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 247,163,206</u></u>	<u><u>\$ 357,500,992</u></u>

See notes to financial statements.

**Delaware Transportation Authority
Transportation Trust Fund**

Statements of Cash Flows

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 327,399,923	\$ 318,523,026
Other receipts	-	1,570,112
Payments to employees	(6,458,952)	(6,179,815)
Payments to suppliers	<u>(472,219,591)</u>	<u>(380,302,962)</u>
Net cash flows used in operating activities	(151,278,620)	(66,389,639)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Proceeds from State General Fund - capital contributions	<u>67,415,489</u>	<u>37,061,889</u>
Net cash flows provided by noncapital financing activity	67,415,489	37,061,889
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of bond principal	(53,920,000)	(47,640,000)
Payment to escrow agent for refunding of bonds	(67,425,000)	-
Proceeds from bond sale	167,550,000	-
Proceeds from issuance of note	40,000,000	-
Repayment from Diamond State Port Corporation	-	426,420
Loan to Delaware Department of Transportation	-	(753,694)
Repayment from Delaware Department of Transportation	879,247	-
Premium from bond sale	9,223,338	-
Acquisition of capital assets	(8,120,242)	(15,407,966)
Payments of interest	<u>(45,217,568)</u>	<u>(38,299,588)</u>
Net cash flows provided by (used in) capital and related financing activities	42,969,775	(101,674,828)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	41,192,327	133,155,210
Purchase of investments	(4,844,885)	(7,460,120)
Interest received	<u>5,298,335</u>	<u>5,000,776</u>
Net cash flows provided by investing activities	<u>41,645,777</u>	<u>130,695,866</u>
Net increase (decrease) in cash and cash equivalents	752,421	(306,712)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,750,449</u>	<u>2,057,161</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,502,870</u></u>	<u><u>\$ 1,750,449</u></u>

Continued...

**Delaware Transportation Authority
Transportation Trust Fund**

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net operating loss	\$ (146,998,153)	\$ (65,969,516)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	192,045	192,045
Changes in assets and liabilities		
Decrease in accounts receivable	157,554	1,549,587
Increase (decrease) in accounts payable	(2,259,169)	678,415
Increase (decrease) in accrued payroll and related expenses	53,378	(27,284)
Decrease in deferred revenue	(2,665,572)	(2,982,981)
Increase in other accrued expenses	<u>241,297</u>	<u>170,095</u>
Net cash used in operating activities	<u>\$ (151,278,620)</u>	<u>\$ (66,389,639)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest capitalized on Diamond State Port Corporation loan	<u>\$ 1,911,372</u>	<u>\$ -</u>

See notes to financial statements.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements

Note A - Organization and Trust Agreements

1. Organization

The Delaware Transportation Authority (the Authority) is a body corporate and politic constituting an instrumentality of the State of Delaware (the State). The Department of Transportation (the Department) has overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policy for the State. The Authority assists in the implementation of this policy and has the power to develop a unified system of air, water, vehicular, and specialized transportation in the State, subject to oversight by the Department and the State.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority, which is the recipient of all revenue and receipts of the Authority. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which the Authority owns and operates. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects.

The Authority also has the power to issue bonds, with the approval of the State, to finance improvements to the State's transportation system.

2. Trust Agreements

The provisions of the Trust Agreements govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note A - Organization and Trust Agreements (Continued)

2. Trust Agreements (Continued)

The Trust Agreements in effect at June 30, 2005 and 2004 are the Motor Fuel Tax Revenue Bond Trust Agreement, dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement, dated August 1, 1988, as supplemented.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting

The Authority maintains its accounts on a basis of accounting as described in the Trust Agreements. This basis of accounting is in accordance with accounting principles generally accepted in the United States of America.

The Authority operates as an enterprise fund. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

3. Allowance for Doubtful Accounts

Accounts receivable are expected to be fully collectible at June 30, 2005 and 2004, and accordingly, a provision for uncollectible accounts has not been established.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

4. Investments

Investments are recorded at their fair value. Investments at June 30, 2005 and 2004 consisted of United States Government Obligations and Commercial Paper classified as "Qualified Investments" by the Trust Agreement.

5. Budgets

Budgets are adopted for Expressways Operations/Toll Administration operating expenses on a basis consistent with accounting principles generally accepted in the United States of America. Unencumbered appropriations for annually budgeted funds lapse at fiscal year end.

6. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Financial Accounting Standards Board (FASB) Pronouncements

The Authority has elected not to apply FASB pronouncements issued after November 30, 1989.

8. Capital Assets

Capital assets, which include buildings, land, land improvements, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the enterprise fund financial statements.

It is the policy of the State to capitalize land and buildings, regardless of cost, to capitalize improvements to land and buildings when the costs of projects exceed \$100,000, and to capitalize infrastructure when the

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

8. Capital Assets (Continued)

costs of individual items or projects exceed \$1 million. The Trust Fund follows the State's policy with the exception of improvements to land and buildings, which are capitalized, regardless of cost.

Such assets are recorded at historical cost or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings and land improvements are depreciated on a straight-line basis.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The "modified approach" to account for roads and bridges has been elected, as provided by GASB No. 34. Under this process, the Authority does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Authority to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Authority maintains two asset management systems, one for the roads and one for the bridges. In addition, the Authority completes condition assessments on its roads every year and on its bridges at least every two years.

Buildings and land improvements are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Land improvements	15

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note B - Summary of Significant Accounting Policies (Continued)

9. Compensated Absences

Compensated absences are absences for which Expressways Operations/Toll Administration employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Expressways Operations/Toll Administration and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Expressways Operations/Toll Administration and its employees are accounted for in the period in which such services are rendered or such events take place.

10. Bond Issue Premium

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Amortization taken in 2005 and 2004 was \$7,418,587 and \$6,241,846, respectively.

11. Revenues and Expenses

The Authority defines nonoperating revenues as investment and interest income. All other revenues are derived from normal operations of the Authority. Nonoperating expenses are defined as interest expense. All other expenses are a result of normal operations.

12. Changes in Accounting Principles

The Authority adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, in fiscal year 2005. GASB Statement No. 40 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful. GASB Statement No. 40 had an impact on the presentation of the notes to the financial statements, but no impact on net assets.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note C - Cash and Investments

Cash Management Policy and Investment Guidelines

The policy for the investment of Authority funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Authority. Under the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Authority are categorized as "Authority Accounts." Investments of the Authority are further restricted to "Qualified Investments" as defined in the Trust Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2005 and 2004, investments of the Authority are primarily in U.S. Government Securities, U.S. Government Agency Securities, and Commercial Paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Agreement.

The Policy is available on the Internet at www.state.de.us/treasure.

Custodial Credit Risk

1. Deposits

The carrying amounts of the Authority's deposits at June 30, 2005 and 2004 were \$2,502,870 and \$1,750,449, respectively, and the bank balances were \$1,935,611 and \$1,004,187, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. The entire bank balances at June 30, 2005 and 2004 of \$1,935,611 and \$1,004,187, respectively, were covered by federal depository insurance for \$100,000 and by collateral held by the Authority's Trustee, in the Authority's name, for the remainder, in accordance with the Policy and the Trust Agreement.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note C - Cash and Investments (Continued)

Custodial Credit Risk (Continued)

2. Investments

Investments of the Authority are stated at fair value, which approximates cost. At June 30, 2005 and 2004, all of the Authority's investments were insured or registered, with securities held by the Authority or its agent in the Authority's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Authority Accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following tables present a listing of directly held investments and related maturities.

<u>June 30, 2005</u>		<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 5,902,563	\$ 355,345	\$ 5,547,218	\$ -
U.S. Government Agency Securities	137,059,208	93,359,004	42,739,960	960,244
Commercial Paper	<u>49,134,783</u>	<u>49,134,783</u>	<u>-</u>	<u>-</u>
	<u>\$192,096,554</u>	<u>\$142,849,132</u>	<u>\$48,287,178</u>	<u>\$960,244</u>
<u>June 30, 2004</u>		<u>Investment Maturities (in years)</u>		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 16,726,145	\$ 11,755,758	\$ 4,970,387	\$ -
U.S. Government Agency Securities	151,013,863	82,824,643	66,706,359	1,482,861
Commercial Paper	<u>60,547,145</u>	<u>60,547,145</u>	<u>-</u>	<u>-</u>
	<u>\$228,287,153</u>	<u>\$155,127,546</u>	<u>\$71,676,746</u>	<u>\$1,482,861</u>

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note C - Cash and Investments (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority follows the Policy and the Trust Agreement by investing only in authorized securities. The Authority's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Trust Agreement limits investments in commercial paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Trust had investments in Commercial Paper of \$49,134,783 and \$60,547,145 at June 30, 2005 and 2004, respectively. All Commercial Paper held was short-term and rated in accordance with the Trust Agreement. All remaining investments were in U.S. Government Securities and U.S. Government Agency Securities, which carry no credit risk.

Investments in derivatives are prohibited by the Policy.

Investments in Excess of 5%

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2005:

Federal Home Loan Mortgage Corporation	\$63,689,360	33%
Federal National Mortgage Association	73,369,846	38%
General Electric Capital Corporation	20,558,000	11%
Societe Generale NA	14,979,688	8%

Investment Commitments

The Authority has made no investment commitments as of June 30, 2005.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note D - Accounts Receivable

Balances in accounts receivable were as follows at June 30,:

	<u>2005</u>	<u>2004</u>
Concessions - The Authority leases space along the Delaware Turnpike for concessionaires. Rental income is based upon monthly sales and is due the following month.	\$ 194,128	\$ 131,344
E-ZPass revenues	<u>927,138</u>	<u>1,147,476</u>
	<u>\$1,121,266</u>	<u>\$1,278,820</u>

Note E - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Infrastructure	\$876,041,266	\$3,460,423	\$ -	\$879,501,689
Land	<u>102,442,981</u>	<u>4,659,819</u>	<u>-</u>	<u>107,102,800</u>
	<u>\$978,484,247</u>	<u>\$8,120,242</u>	<u>\$ -</u>	<u>\$986,604,489</u>
Capital assets being depreciated				
Buildings	\$ 7,683,385	\$ -	\$ -	\$ 7,683,385
Land improvements	<u>163,924</u>	<u>-</u>	<u>-</u>	<u>163,924</u>
	7,847,309	-	-	7,847,309
Less: accumulated depreciation for buildings and land improvements	<u>2,149,564</u>	<u>192,045</u>	<u>-</u>	<u>2,341,609</u>
Total capital assets being depreciated, net	<u>\$ 5,697,745</u>	<u>\$ (192,045)</u>	<u>\$ -</u>	<u>\$ 5,505,700</u>

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note E - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Infrastructure	\$862,743,820	\$13,297,446	\$ -	\$876,041,266
Land	<u>100,332,461</u>	<u>2,110,520</u>	<u>-</u>	<u>102,442,981</u>
	<u>\$963,076,281</u>	<u>\$15,407,966</u>	<u>\$ -</u>	<u>\$978,484,247</u>
Capital assets being depreciated				
Buildings	\$ 7,683,385	\$ -	\$ -	\$ 7,683,385
Land improvements	<u>163,924</u>	<u>-</u>	<u>-</u>	<u>163,924</u>
	<u>7,847,309</u>	<u>-</u>	<u>-</u>	<u>7,847,309</u>
Less: accumulated depreciation for buildings and land improvements	<u>1,957,519</u>	<u>192,045</u>	<u>-</u>	<u>2,149,564</u>
Total capital assets being depreciated, net	<u>\$ 5,889,790</u>	<u>\$ (192,045)</u>	<u>\$ -</u>	<u>\$ 5,697,745</u>

Depreciation expense was \$192,045 for fiscal years 2005 and 2004.

Note F - Loans Receivable

During fiscal year 2002, the Authority loaned \$27,500,000 to Diamond State Port Corporation. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semi-annual payments of \$1,058,920, with the final payment to be made in January 2023. Effective July 1, 2004, the loan was restructured. Unpaid interest through January 1, 2005, in the amount of \$1,911,372, was capitalized into the loan balance and the payments were deferred until July 1, 2005. The loan is to be repaid in 40 semi-annual payments of \$1,116,100, commencing on July 1, 2005, with the final payment to be made January 1, 2025. The interest rate on the restructured loan remains at 4.6%. At June 30, 2005 and 2004, the outstanding loan balance was \$28,984,952 and \$27,073,580, respectively (see Note W).

During fiscal years 2005 and 2004, the Authority advanced the Department \$1,786,325 and \$5,000,000, respectively, to pay future E-ZPass operating expenses. The loan balance is reduced as actual expenses are incurred. The balance at June 30, 2005 and 2004 was \$678,419 and \$1,557,666, respectively.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note G - Note Payable

On May 6, 2005, the Authority issued a \$40,000,000 note to PNC Bank, Delaware. Proceeds of the note are for the purpose of providing interim financing for the Department's capital program in anticipation of issuance of long-term bonds, which will provide permanent financing for the capital program. The note bears interest at 2.92% for the period from May 6, 2005 to (but excluding) August 3, 2005, and is adjusted each business day thereafter to a variable rate based on LIBOR [(LIBOR + 25 basis points) (.65 + 68 basis points)]. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The note, together with all interest accrued, is payable on October 3, 2005. The balance outstanding on the note at June 30, 2005 was \$40,000,000.

Note H - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$815,505,000	\$167,550,000	\$(121,345,000)	\$861,710,000	\$58,445,000
Bond issue premium, net of accumulated amortization	29,382,368	9,223,338	(8,823,181)	29,782,525	-
Claims and judgments	11,083,932	241,297	-	11,325,229	-
Compensated absences	<u>279,238</u>	<u>18,723</u>	<u>-</u>	<u>297,961</u>	<u>100,409</u>
Long-term liabilities	<u>\$856,250,538</u>	<u>\$177,033,358</u>	<u>\$(130,168,181)</u>	<u>\$903,115,715</u>	<u>\$58,545,409</u>

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note H - Changes in Long-Term Liabilities (Continued)

Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$863,145,000	\$ -	\$(47,640,000)	\$815,505,000	\$53,920,000
Bond issue premium, net of accumulated amortization	35,624,214	-	(6,241,846)	29,382,368	-
Claims and judgments	10,913,837	170,095	-	11,083,932	-
Compensated absences	<u>305,795</u>	<u>-</u>	<u>(26,557)</u>	<u>279,238</u>	<u>64,712</u>
Long-term liabilities	<u>\$909,988,846</u>	<u>\$170,095</u>	<u>\$(53,908,403)</u>	<u>\$856,250,538</u>	<u>\$53,984,712</u>

The Authority is responsible for liquidating all long-term liabilities.

Note I - Bonds Outstanding

Bonds outstanding at June 30, 2005 and 2004 are detailed as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding	
			June 30, 2005	June 30, 2004
SENIOR BONDS				
1993/2010	\$ 69,410,000	Transportation System Senior Revenue Bonds, 1993 Series, 5.10%	\$ -	\$ 12,745,000
1994/2014	70,000,000	Transportation System Senior Revenue Bonds, 1994 Series, 6.50%	-	3,205,000
1997/2017	120,640,000	Transportation System Senior Revenue Bonds, 1997 Series, 5.00-6.00%	60,090,000	97,490,000
1998/2016	60,560,000	Transportation System Senior Revenue Bonds, 1998 Series, 4.15-5.50%	52,385,000	59,170,000
2000/2020	83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	20,770,000	27,790,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50-5.00%	53,815,000	60,935,000
2002/2008	43,015,000	Transportation System Senior Revenue Bonds, 2002 Series, 4.00-5.00%	39,905,000	43,015,000

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note I - Bonds Outstanding (Continued)

<u>Date of Issue/Maturity</u>	<u>Amount of Original Issue</u>	<u>Description and Interest Rates</u>	<u>Balance Outstanding</u>	
			<u>June 30, 2005</u>	<u>June 30, 2004</u>
2002/2022	\$173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00-5.25%	\$153,100,000	\$165,000,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 3.00-5.00%	256,575,000	277,210,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2004 Series, 3.00-5.00%	167,550,000	-
JUNIOR BONDS				
1993/2005	\$ 33,605,000	Transportation System Junior Revenue Bonds, 1993 Series, 5.00%	10,260,000	20,020,000
1997/2004	19,385,000	Transportation System Junior Revenue Bonds, 1997 Series, 4.50%	-	805,000
2002/2009	48,120,000	Transportation System Junior Revenue Bonds, 2002 Series, 4.375-5.00%	<u>47,260,000</u>	<u>48,120,000</u>
		Totals	861,710,000	815,505,000
		Less: current portion	<u>58,445,000</u>	<u>53,920,000</u>
		Long-term portion	<u>\$803,265,000</u>	<u>\$761,585,000</u>

The Transportation System Revenue Bonds are limited obligations of the Authority secured only by the pledged revenues of the Authority. The pledged revenues of the Authority were as follows at June 30,:

	<u>2005</u>	<u>2004</u>
Pledged operating revenues	\$294,800,531	\$285,748,862
Investment income	<u>6,019,636</u>	<u>5,981,028</u>
	<u>\$300,820,167</u>	<u>\$291,729,890</u>

The bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State of Delaware or of any such political subdivision.

The Authority had a total of \$95,219,525 and \$195,470,550 in authorized but unissued bonds at June 30, 2005 and 2004, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note I - Bonds Outstanding (Continued)

The annual requirement to amortize all bonds payable as of June 30, 2005 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2006	\$ 58,445,000	\$ 40,573,074	\$ 99,018,074
2007	60,370,000	37,590,889	97,960,889
2008	63,980,000	34,477,817	98,457,817
2009	67,320,000	31,178,829	98,498,829
2010	64,595,000	27,881,848	92,476,848
2011 - 2015	239,995,000	100,578,768	340,573,768
2016 - 2020	192,540,000	47,318,706	239,858,706
2021 - 2025	<u>114,465,000</u>	<u>9,925,732</u>	<u>124,390,732</u>
	<u>\$861,710,000</u>	<u>\$329,525,663</u>	<u>\$1,191,235,663</u>

On October 20, 2004, the Trust Fund issued \$167,550,000 of Transportation System Senior Revenue Bonds, 2004 Series, of which \$67,425,000 was for an advance refunding of the following Transportation System Senior Revenue Bonds:

1997 Series	\$34,280,000
2000 Series	4,115,000
2001 Series	4,245,000
2002B Series	8,870,000
2003 Series	<u>15,915,000</u>
	<u>\$67,425,000</u>

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$3,305,552 and a reduction of \$4,462,624 in future debt service payments.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note J - Debt Defeasance

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability. As of June 30, 2005 and 2004, the amount of defeased debt outstanding amounted to \$151,760,000 and \$135,255,000, respectively.

Note K - Designated Net Assets

For operations, unrestricted net assets designated by management were as follows at June 30,:

	<u>2005</u>	<u>2004</u>
DTC Transit Fund		
Unexpended appropriations authorized by the State Budget Bills were carried forward as a designated net asset. For the years ended June 30, 2005 and 2004, the DTC Transit Fund expended authorized appropriations amounting to \$56,297,116 and \$51,967,149, respectively. The remaining totals of budgeted appropriations to be paid in future periods are:	\$ 5,777,107	\$ 5,999,253
Other Transportation Funds		
Authorized appropriations to fund State highway administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2005 and 2004 were \$130,683,921 and \$121,188,589, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of:	<u>7,168,796</u>	<u>12,183,666</u>
Total designated net assets	<u>\$12,945,903</u>	<u>\$18,182,919</u>

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note L - Electronic Toll Collection

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing, and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees were expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement that each member jurisdiction has signed.

At June 30, 2005 and 2004, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amounts of this liability, that is due in March 2008, is not known, a reasonable estimate, based on information currently available, is \$12,000,000 for each year. These amounts have been discounted to their present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amounts of \$11,325,229 and 11,083,932 appear as claims and judgments in the accompanying balance sheets at June 30, 2005 and 2004, respectively. Recognition of this expenditure reduces the net assets at June 30, 2005 and 2004 by \$241,297 and \$170,095, respectively. To accumulate funds for future payment of this contingency, the Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-ZPass operation jointly with three agencies from other states. November 30, 2003 was designated as the final transition date. As of that date, the Trust Fund began operating its E-ZPass system independent of the regional consortium. Per the terms of the withdrawal agreement, the Trust Fund received approximately \$7.6 million during fiscal year 2003 to cover various transition costs. This amount was initially

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note L - Electronic Toll Collection (Continued)

recorded as deferred revenue and vendor retainage payable and will be recorded as income as expenses are incurred. For the years ended June 30, 2005 and 2004, expenses related to E-ZPass were \$2,665,572 and \$4,246,306, respectively. These amounts are included as E-ZPass expense reimbursements and Expressways Operations/Toll Administration and interstate operating expense in the accompanying statements of revenues, expenses, and change in net assets.

Note M - International Registration Plan

The Department participates in the International Registration Plan (IRP) pursuant to Section 4008 of the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. ISTEA requires jurisdictions to join base state agreements for the collection and distribution of commercial vehicle registration fees. IRP is an agreement among member jurisdictions whereby commercial registration fees are collected and reallocated based on a proration of miles traveled in each jurisdiction. Revenue in the amount of \$9,336,927 and \$9,128,146, respectively, was collected, and the amounts distributed to other jurisdictions were \$1,127,359 and \$1,722,521, respectively, during fiscal years 2005 and 2004. IRP fees were included in motor vehicle registration fee revenue at the net amount.

Note N - International Fuel Tax Agreement

The Department of Transportation participates in the International Fuel Tax Agreement (IFTA). IFTA is an agreement among member jurisdictions whereby commercial licenses are collected and reallocated based on a proration of miles traveled in each jurisdiction. Revenue in the amount of \$5,304,638 and \$5,574,196, respectively, was collected, and the amounts distributed to other jurisdictions were \$1,050,750 and \$783,744, respectively, during fiscal years 2005 and 2004. IFTA revenue is recorded at the net amount.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note O - Retirement Plan

Essentially all full-time Expressways Operations/Toll Administration employees are covered under the State of Delaware Defined Benefit Pension Plan, which is administered by the Office of Pension and Investments. The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds \$6,000 per calendar year. Contributions by the Expressways Operations/Toll Administration are based on percentages of total employee compensation as specified by the Office of Pension and Investments.

The following trend information for the current and preceding two years was as follows as of June 30,:

<u>Fiscal Year</u>	<u>Annual Pension Expense</u>	<u>Employer Contribution Rate</u>
2005	\$486,508	13.25%
2004	392,618	11.44%
2003	305,316	9.47%

The State does not maintain the Pension Plan information by agency, and therefore, the Expressways Operations/Toll Administration's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Note P - Deferred Compensation Plan

The Expressways Operations/Toll Administration offers its permanent employees the State of Delaware's Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State employees, permits them to defer a portion of their salary to future

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note P - Deferred Compensation Plan (Continued)

years; participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first \$10 contributed by employees who have worked for the State at least six months.

Note Q - Post-Retirement Health Care Benefits

In addition to the pension benefits, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements.

Note R - Contributions from the State General Fund

The State's General Assembly and the State's Division of Revenue transferred the following amounts from the State's General Fund to the Trust Fund during the years ended June 30,:

	<u>2005</u>	<u>2004</u>
Amounts transferred to the Revenue Fund:		
Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees	\$ 2,548,989	\$ 2,504,023
Amounts transferred to the Trust Fund:		
Supplemental appropriation from fiscal year Bond Bill	10,000,000	10,000,000
Division of Motor Vehicles	2,766,500	4,542,866
Port of Wilmington improvements and expansion	15,000,000	5,015,000
Green infrastructure program	22,100,000	-
Glenville disaster recovery	<u>15,000,000</u>	<u>15,000,000</u>
	<u>\$67,415,489</u>	<u>\$37,061,889</u>

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note S - Related Party Transactions

Per the terms of the Trust Agreement, the Trust Fund is responsible for reimbursing the State for the Department's operating expenses paid out of the State's General Fund. Total reimbursements for the years ended June 30, 2005 and 2004 were \$460,838,313 and \$371,331,250, respectively. These amounts are included under the caption "Expenses in accordance with Trust Agreement" in the accompanying statements of revenues, expenses, and change in net assets.

Note T - Delaware State Infrastructure Bank

In 1998, the Authority entered into a cooperative agreement with the Federal Highway Administration (FHWA) to establish and provide for the administration of the Delaware State Infrastructure Bank (SIB), in accordance with the National Highway System Designation Act of 1995 and State enabling legislation. The SIB was funded with a \$4.8 million grant from the FHWA. The Authority was required to provide 25% matching funds (\$1.2 million) from the Trust Fund. The total \$6 million amount is required to be maintained in a separate Highway Account within the Trust Fund.

The SIB will loan funds to help transportation project sponsors pay for highway, transit, and rail improvements, or provide credit assistance that makes it affordable for sponsors to borrow money from other sources. The funds will be repaid and used to make new loans.

The funds were advanced to the Trust Fund from SIB as a loan. The Trust Fund is scheduled to repay SIB over six years, paying \$585,348 twice a year. The loan is being repaid with interest at 5%. At June 30, 2005 and 2004, the balance due from the Trust Fund was \$569,333 and \$1,669,789, respectively.

Note U - Commitments and Contingencies

The Authority had contractual commitments of \$13,980,292 for construction of various highway projects at June 30, 2005. Current and future appropriations will fund these commitments as work is performed.

**Delaware Transportation Authority
Transportation Trust Fund**

Notes to Financial Statements (Continued)

Note V - Risk Management

The Authority is exposed to various risks of loss related to worker's compensation, healthcare, automobile, and casualty claims. The Authority is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Authority pays premiums to the General Fund for this coverage.

Note W - Subsequent Events

Effective July 1, 2005, the Diamond State Port loan (See Note F) was restructured. Unpaid interest through January 1, 2006, in the amount of \$1,348,641, will be capitalized into the loan balance. The interest rate on the restructured loan will remain at 4.6%. The loan is to be repaid in 40 semi-annual payments of \$1,168,031, commencing on July 1, 2006, with the final payment to be made January 1, 2026.

Required Supplementary Information

**Delaware Transportation Authority
Transportation Trust Fund**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets**

<u>Bridge Condition Assessments</u>		<u>Structural Rating Numbers & Percentages for Bridges</u>					
	<u>BCR Condition Rating</u>	<u>2004</u>		<u>2003</u>		<u>2002</u>	
		<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Good	6 - 9	102	87.9	104	89.7	93	87.8
Fair	5	11	9.5	10	8.6	10	9.4
Poor	1 - 4	3	2.6	2	1.7	3	2.8
Totals		<u>116</u>	<u>100.0</u>	<u>116</u>	<u>100.0</u>	<u>106</u>	<u>100.0</u>

		<u>Deck Rating Numbers & Percentages for Bridges</u>					
	<u>OPC Condition Rating</u>	<u>2004</u>		<u>2003</u>		<u>2002</u>	
		<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>
Good	6 - 9	1,520,470	96.5	1,510,446	97.0	1,382,215	96.8
Fair	5	54,351	3.5	46,102	3.0	46,102	3.2
Poor	1 - 4	-	-	-	-	-	-
Totals		<u>1,574,821</u>	<u>100.0</u>	<u>1,556,548</u>	<u>100.0</u>	<u>1,428,317</u>	<u>100.0</u>

		<u>Centerline Mile Numbers & Percentages for Roadway</u>					
<u>Roadway Condition Assessments</u>	<u>OPC Condition Rating</u>	<u>2004</u>		<u>2003</u>		<u>2002</u>	
		<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>
Good	3.0 - 5.0	113.16	94.0	95.45	90.3	91.84	93.0
Fair	2.5 - 3.0	2.95	2.5	6.31	6.0	2.81	2.8
Poor	Below 2.5	4.24	3.5	3.88	3.7	4.10	4.2
Totals		<u>120.35</u>	<u>100.0</u>	<u>105.64</u>	<u>100.0</u>	<u>98.75</u>	<u>100.0</u>

Comparison of Estimated-to-Actual Maintenance / Preservation (in Thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Estimated	\$ <u>4,531</u>	\$ <u>13,839</u>	\$ <u>13,119</u>	\$ <u>15,345</u>	\$ <u>11,900</u>
Actual	\$ <u>10,553</u>	\$ <u>15,092</u>	\$ <u>14,863</u>	\$ <u>19,948</u>	\$ <u>30,740</u>

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

**Delaware Transportation Authority
Transportation Trust Fund**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets (Continued)**

The condition of bridges is measured using the “Bridge Condition Rating” (BCR), which is based on the FHWA Coding Guide, “Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation’s Bridges.” The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past “Bridge Inventory Status” reports.

It is the State’s policy to maintain at least 75% of its highways and bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges.

Additional Information

Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Administrators
Delaware Transportation Authority
Transportation Trust Fund
Dover, Delaware

We have audited the financial statements of the business-type activities of the Delaware Transportation Authority, Transportation Trust Fund as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated August 18, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Delaware Transportation Authority, Transportation Trust Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Administrators

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware Transportation Authority, Transportation Trust Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Administrators of the Delaware Transportation Authority, Transportation Trust Fund, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Department of Finance, and Office of Auditor of Accounts and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

A handwritten signature in black ink that reads "Santora CPA Group". The signature is fluid and cursive, with a long horizontal line extending from the end of the word "Group".

August 18, 2005
Newark, Delaware

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**Delaware Transportation Authority
Transportation Trust Fund**

**Statement of Revenues, Expenses, and
Change in Net Assets in Accordance with Trust Agreement**

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	Operations	Trust Holdings	Delaware SIB Highway Fund	Debt Reserve	Totals (Memorandum Only)	
					2005	2004
OPERATING REVENUES						
Pledged revenue						
Turnpike revenue	\$ 60,703,200	\$ -	\$ -	\$ -	\$ 60,703,200	\$ 62,861,026
Motor fuel tax revenue	113,663,312	-	-	-	113,663,312	112,434,740
Motor vehicle document fee revenue	65,700,234	-	-	-	65,700,234	62,545,831
Motor vehicle registration fee revenue	30,188,939	-	-	-	30,188,939	28,342,067
Other motor vehicle revenue	20,290,958	-	-	-	20,290,958	14,774,746
International Fuel Tax Agreement revenue	4,253,888	-	-	-	4,253,888	4,790,452
Total pledged revenue	294,800,531	-	-	-	294,800,531	285,748,862
Toll revenue - Delaware SR-1	30,161,375	-	-	-	30,161,375	27,100,947
Federal highway reimbursements	-	-	-	-	-	1,570,112
Property management revenue	-	173,854	-	-	173,854	147,090
E-ZPass expense reimbursements	-	2,665,572	-	-	2,665,572	4,246,306
Miscellaneous revenue	-	2,106,609	-	-	2,106,609	2,713,215
Total operating revenues	324,961,906	4,946,035	-	-	329,907,941	321,526,532
OPERATING EXPENSES						
Expressways Operations/Toll Administration and interstate operating expenses	14,255,321	-	-	-	14,255,321	15,178,345
Claims and judgments	241,297	-	-	-	241,297	170,095
Expenses in accordance with Trust Agreement	178,240,905	282,597,408	-	-	460,838,313	371,331,250
State General Fund debt service	-	546,089	-	-	546,089	621,553
Depreciation	-	192,045	-	-	192,045	192,045
Financing expenses	-	833,029	-	-	833,029	2,760
Total operating expenses	192,737,523	284,168,571	-	-	476,906,094	387,496,048

Continued...

**Delaware Transportation Authority
Transportation Trust Fund**

**Statement of Revenues, Expenses, and
Change in Net Assets in Accordance with Trust Agreement (Continued)**

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	Operations	Trust Holdings	Delaware SIB Highway Fund	Debt Reserve	Totals (Memorandum Only)	
					2005	2004
OPERATING INCOME (LOSS)	\$ 132,224,383	\$ (279,222,536)	\$ -	\$ -	\$ (146,998,153)	\$ (65,969,516)
NONOPERATING REVENUES (EXPENSES)						
Pledged revenue - income from investments (net of fees)	975,248	3,291,703	247,207	1,505,478	6,019,636	5,981,028
Net increase (decrease) in the fair value of investments	13,857	213,658	(9,310)	(61,362)	156,843	(2,099,056)
Accrued interest from bond sales	-	401,223	-	-	401,223	-
Interest expense	-	(37,332,824)	-	-	(37,332,824)	(34,357,809)
Total nonoperating revenues (expenses)	989,105	(33,426,240)	237,897	1,444,116	(30,755,122)	(30,475,837)
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	133,213,488	(312,648,776)	237,897	1,444,116	(177,753,275)	(96,445,353)
Capital contributions	2,548,989	64,866,500	-	-	67,415,489	37,061,889
Transfer in of funds in accordance with Trust Agreement	194,354,543	514,302,299	-	3,493,618	712,150,460	381,060,952
Transfer out of funds in accordance with Trust Agreement	(336,657,549)	(374,053,589)	-	(1,439,322)	(712,150,460)	(381,060,952)
CHANGE IN NET ASSETS	(6,540,529)	(107,533,566)	237,897	3,498,412	(110,337,786)	(59,383,464)
TOTAL NET ASSETS - BEGINNING OF YEAR	34,386,620	277,707,404	8,024,084	37,382,884	357,500,992	416,884,456
TOTAL NET ASSETS - END OF YEAR	\$ 27,846,091	\$ 170,173,838	\$ 8,261,981	\$ 40,881,296	\$ 247,163,206	\$ 357,500,992

**Delaware Transportation Authority
Transportation Trust Fund**

Statement of Cash Flows in Accordance with Trust Agreement

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	Operations	Trust Holdings	Delaware SIB Highway Fund	Debt Reserve	(Memorandum Only)	
					2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 325,119,460	\$ 2,280,463	\$ -	\$ -	\$ 327,399,923	\$ 318,523,026
Other receipts	-	-	-	-	-	1,570,112
Payments to employees	(6,458,952)	-	-	-	(6,458,952)	(6,179,815)
Payments to suppliers	(185,365,935)	(286,853,656)	-	-	(472,219,591)	(380,302,962)
Net cash flows provided by (used in) operating activities	133,294,573	(284,573,193)	-	-	(151,278,620)	(66,389,639)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from State General Fund - capital contributions	2,548,989	64,866,500	-	-	67,415,489	37,061,889
Net transfers of funds in accordance with Trust Agreement	(142,303,006)	140,248,710	-	2,054,296	-	-
Net cash flows provided by (used in) noncapital financing activities	(139,754,017)	205,115,210	-	2,054,296	67,415,489	37,061,889
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Payments of bond principal	-	(53,920,000)	-	-	(53,920,000)	(47,640,000)
Payment to escrow agent for refunding of bonds	-	(67,425,000)	-	-	(67,425,000)	-
Payments of principal on debt reserve loan	-	(1,100,456)	1,100,456	-	-	-
Proceeds from bond sale	-	167,550,000	-	-	167,550,000	-
Proceeds from issuance of note	-	40,000,000	-	-	40,000,000	-
Repayment from Diamond State Port Corporation	-	-	-	-	-	426,420
Loan to Delaware Department of Transportation	-	-	-	-	-	(753,694)
Repayment from Delaware Department of Transportation	-	879,247	-	-	879,247	-
Premium from bond sale	-	9,223,338	-	-	9,223,338	-
Acquisition of capital assets	-	(8,120,242)	-	-	(8,120,242)	(15,407,966)
Payments of interest	-	(45,217,568)	-	-	(45,217,568)	(38,299,588)
Net cash flows provided by (used in) capital and related financing activities	-	41,869,319	1,100,456	-	42,969,775	(101,674,828)

Continued...

**Delaware Transportation Authority
Transportation Trust Fund**

Statement of Cash Flows in Accordance with Trust Agreement (Continued)

**For the Year Ended June 30, 2005
With Comparative Totals for the Year Ended June 30, 2004**

	Operations	Trust Holdings	Delaware SIB Highway Fund	Debt Reserve	(Memorandum Only)	
					2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of investments	\$ 6,039,919	\$ 35,152,408	\$ -	\$ -	\$ 41,192,327	\$ 133,155,210
Purchase of investments	-	-	(1,355,563)	(3,489,322)	(4,844,885)	(7,460,120)
Interest received	988,248	2,629,089	231,520	1,449,478	5,298,335	5,000,776
Net cash flows provided by (used in) investing activities	7,028,167	37,781,497	(1,124,043)	(2,039,844)	41,645,777	130,695,866
Net increase (decrease) in cash and cash equivalents	568,723	192,833	(23,587)	14,452	752,421	(306,712)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,811,501	(172,137)	26,220	84,865	1,750,449	2,057,161
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,380,224</u>	<u>\$ 20,696</u>	<u>\$ 2,633</u>	<u>\$ 99,317</u>	<u>\$ 2,502,870</u>	<u>\$ 1,750,449</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES						
Net operating income (loss)	\$ 132,224,383	\$ (279,222,536)	\$ -	\$ -	\$ (146,998,153)	\$ (65,969,516)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities						
Depreciation and retirements of property and equipment	-	192,045	-	-	192,045	192,045
Changes in assets and liabilities						
Decrease in accounts receivable	157,554	-	-	-	157,554	1,549,587
Increase (decrease) in accounts payable	617,961	(2,877,130)	-	-	(2,259,169)	678,415
Increase (decrease) in accrued payroll and related expenses	53,378	-	-	-	53,378	(27,284)
Decrease in deferred revenue	-	(2,665,572)	-	-	(2,665,572)	(2,982,981)
Increase in other accrued expenses	241,297	-	-	-	241,297	170,095
Net cash provided by (used in) operating activities	<u>\$ 133,294,573</u>	<u>\$ (284,573,193)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (151,278,620)</u>	<u>\$ (66,389,639)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES						
Interest capitalized on Diamond State Port Corporation loan	\$ -	\$ 1,911,372	\$ -	\$ -	\$ 1,911,372	\$ -

Delaware Transportation Authority Transportation Trust Fund

Schedule of Bonds Outstanding

June 30, 2005

Principal	Senior					2004 Series	2003 Series	2002 SER B		2002 Series	2001 Series	2000 Series	1998 Series	1997 Series	Total Senior Bond Series
	Series	Series	Series	Series	Series			Series	Series						
FY06	\$ 10,160,000									\$ 12,140,000	\$ 3,020,000	\$ 3,050,000	\$ 195,000	\$	\$ 3,350,000
FY07	3,455,000									16,460,000	3,170,000	3,200,000	205,000		3,495,000
FY08	3,665,000									5,515,000	3,330,000	3,360,000	3,215,000		3,635,000
FY09	3,885,000									5,790,000	3,495,000	3,535,000	7,450,000		3,810,000
FY10	8,390,000									-	3,670,000	3,715,000	3,550,000		3,930,000
FY11	8,820,000									-	3,855,000	3,910,000	3,710,000		26,350,000
FY12	5,050,000									-	4,045,000	-	3,885,000		4,125,000
FY13	5,300,000									-	-	-	4,060,000		12,285,000
FY14	5,560,000									-	-	-	-		12,810,000
FY15	5,805,000									-	-	-	-		13,240,000
FY16	-									-	-	-	-		9,620,000
FY17	-									-	5,175,000	-	12,770,000		22,025,000
FY18	-									-	5,405,000	-	13,345,000		18,450,000
FY19	-									-	-	-	-		10,955,000
FY20	-									-	-	-	-		5,755,000
FY21	-									-	5,935,000	-	-		9,435,000
FY22	-									-	6,210,000	-	-		6,000,000
FY23	-									-	6,505,000	-	-		6,255,000
FY24	-									-	-	-	-		10,405,000
FY25	-									-	-	-	-		10,870,000
										-	-	-	-		11,360,000
										\$ 39,905,000	\$ 53,815,000	\$ 20,770,000	\$ 52,385,000	\$ 60,090,000	\$ 167,550,000
										\$ 153,100,000	\$ 256,575,000	\$ 804,190,000			\$ 7,395,000

Junior	Total Junior Bond Series		Totals
	1993 Series	2002 Series	
	\$ 10,260,000	\$ 895,000	\$ 58,445,000
	-	10,825,000	60,370,000
	-	11,300,000	63,980,000
	-	11,825,000	67,320,000
	-	12,415,000	64,595,000
	-	-	54,800,000
	-	-	45,125,000
	-	-	47,250,000
	-	-	45,225,000
	-	-	47,595,000
	-	-	44,780,000
	-	-	47,270,000
	-	-	35,710,000
	-	-	31,545,000
	-	-	33,235,000
	-	-	34,815,000
	-	-	29,635,000
	-	-	24,170,000
	-	-	18,450,000
	-	-	7,395,000
	\$ 10,260,000	\$ 47,260,000	\$ 861,710,000
			\$ 57,520,000

Delaware Transportation Authority Transportation Trust Fund

Schedule of Bonds Outstanding

June 30, 2004

Principal	1993 Series	1994 Series	1997 Series	1998 Series	Senior 2000 Series	2001 Series	2002 Series	2002 SER B Series	2003 Series	Total Senior Bond Series
FY05	\$ 12,745,000	\$ 3,205,000	\$ 3,120,000	\$ 6,785,000	\$ 2,905,000	\$ 2,875,000	\$ 3,110,000	\$ 3,030,000	\$ 4,720,000	\$ 42,495,000
FY06	-	-	10,160,000	195,000	3,050,000	3,020,000	12,140,000	6,485,000	8,890,000	43,940,000
FY07	-	-	3,455,000	205,000	3,200,000	3,170,000	16,460,000	6,835,000	12,725,000	46,050,000
FY08	-	-	3,665,000	3,215,000	3,360,000	3,330,000	5,515,000	7,200,000	22,760,000	49,045,000
FY09	-	-	3,885,000	7,460,000	3,535,000	3,495,000	5,790,000	3,640,000	23,690,000	51,685,000
FY10	-	-	8,390,000	3,550,000	3,715,000	3,670,000	-	3,825,000	25,100,000	48,250,000
FY12	-	-	8,820,000	3,710,000	3,910,000	3,855,000	-	4,030,000	26,350,000	50,675,000
FY13	-	-	9,260,000	3,885,000	4,115,000	4,045,000	-	4,240,000	15,620,000	41,165,000
FY14	-	-	9,720,000	4,060,000	-	4,245,000	-	8,675,000	16,405,000	43,105,000
FY15	-	-	10,200,000	-	-	-	-	13,440,000	17,225,000	40,865,000
FY16	-	-	10,675,000	-	-	-	-	14,080,000	18,090,000	42,845,000
FY17	-	-	5,115,000	12,770,000	-	-	-	14,615,000	7,765,000	40,265,000
FY18	-	-	5,375,000	13,345,000	-	5,175,000	-	10,300,000	8,150,000	42,345,000
FY19	-	-	5,650,000	-	-	5,405,000	-	10,790,000	8,560,000	30,405,000
FY20	-	-	-	-	-	-	-	16,805,000	8,995,000	25,790,000
FY21	-	-	-	-	-	5,935,000	-	11,865,000	9,435,000	27,235,000
FY22	-	-	-	-	-	6,210,000	-	12,445,000	9,905,000	28,560,000
FY23	-	-	-	-	-	6,505,000	-	6,205,000	10,405,000	23,115,000
FY24	-	-	-	-	-	-	-	6,495,000	10,870,000	17,365,000
	\$ 12,745,000	\$ 3,205,000	\$ 97,490,000	\$ 59,170,000	\$ 27,790,000	\$ 60,935,000	\$ 43,015,000	\$ 165,000,000	\$ 277,210,000	\$ 746,560,000

Junior		Total	
1993 Series	1997 Series	Junior Bond Series	Totals
\$ 9,760,000	\$ 805,000	\$ 11,425,000	\$ 53,920,000
10,260,000	-	11,155,000	55,095,000
-	-	10,825,000	56,875,000
-	-	11,300,000	60,345,000
-	-	11,825,000	63,510,000
-	-	12,415,000	60,665,000
-	-	-	50,675,000
-	-	-	41,165,000
-	-	-	43,105,000
-	-	-	40,865,000
-	-	-	42,845,000
-	-	-	40,265,000
-	-	-	42,345,000
-	-	-	30,405,000
-	-	-	25,790,000
-	-	-	27,235,000
-	-	-	28,560,000
-	-	-	23,115,000
-	-	-	17,365,000
-	-	-	11,360,000
\$ 20,020,000	\$ 805,000	\$ 68,945,000	\$ 815,505,000

**Delaware Transportation Authority
Transportation Trust Fund**

**Statements of Operating Revenues and Expenses -
Expressways Operations/Toll Administration**

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
TOLL REVENUES - DELAWARE TURNPIKE	\$ 57,701,403	\$ 60,011,848
TOLL REVENUES - DELAWARE SR-1	30,161,375	27,100,947
	<u>87,862,778</u>	<u>87,112,795</u>
ADD - TOLL VARIANCE AND VIOLATIONS	157,264	35,036
	<u>88,020,042</u>	<u>87,147,831</u>
 SERVICE AREA RENTALS		
Marriott restaurants	1,634,478	1,577,223
Service stations		
Exxon	695,007	641,284
Mobil	261,808	246,163
	<u>2,591,293</u>	<u>2,464,670</u>
 OTHER TURNPIKE REVENUES	<u>253,240</u>	<u>349,472</u>
 TOTAL TURNPIKE REVENUES	90,864,575	89,961,973
 DELAWARE TURNPIKE EXPENSES		
Personnel	2,811,378	2,465,213
Utilities	116,687	114,929
Contracted services	586,706	556,957
	<u>3,514,771</u>	<u>3,137,099</u>
 TOLL ADMINISTRATION EXPENSES		
Personnel	678,681	1,056,354
Capital outlay and travel	156,589	3,424,197
Utilities	58,597	-
Contracted services	5,915,075	3,828,050
	<u>6,808,942</u>	<u>8,308,601</u>
 DELAWARE SR-1 EXPENSES		
Personnel	2,968,893	2,658,248
Utilities	224,546	291,410
Contracted services	738,169	782,987
	<u>3,931,608</u>	<u>3,732,645</u>
 TOTAL EXPENSES	<u>14,255,321</u>	<u>15,178,345</u>
 EXCESS OF REVENUES OVER EXPENSES	<u>\$ 76,609,254</u>	<u>\$ 74,783,628</u>

**Delaware Transportation Authority
Transportation Trust Fund**

**Schedules of Expenditures Compared to Budget -
Expressways Operations/Toll Administration**

For the Years Ended June 30, 2005 and 2004

	2005			2004		
	Budget	Actual*	Variance	Budget	Actual*	Variance
DELAWARE TURNPIKE EXPENDITURES						
Personnel	\$ 2,800,500	\$ 2,750,972	\$ 49,528	\$ 2,505,700	\$ 2,500,200	\$ 5,500
Utilities	124,800	124,800	-	114,800	113,055	1,745
Contracted services	598,500	597,924	576	598,500	596,260	2,240
	<u>3,523,800</u>	<u>3,473,696</u>	<u>50,104</u>	<u>3,219,000</u>	<u>3,209,515</u>	<u>9,485</u>
TOLL ADMINISTRATION EXPENDITURES						
Personnel	766,600	731,176	35,424	1,124,600	1,028,338	96,262
Capital outlay and travel	117,000	99,241	17,759	3,317,000	3,306,484	10,516
Utilities	61,000	61,000	-	-	-	-
Contracted services	6,476,100	6,475,558	542	3,939,100	3,901,425	37,675
	<u>7,420,700</u>	<u>7,366,975</u>	<u>53,725</u>	<u>8,380,700</u>	<u>8,236,247</u>	<u>144,453</u>
DELAWARE SR-1 EXPENDITURES						
Personnel	2,952,000	2,923,426	28,574	2,692,400	2,678,560	13,840
Utilities	309,400	300,176	9,224	329,400	322,320	7,080
Contracted services	821,100	815,338	5,762	821,100	817,067	4,033
	<u>4,082,500</u>	<u>4,038,940</u>	<u>43,560</u>	<u>3,842,900</u>	<u>3,817,947</u>	<u>24,953</u>
TOTAL EXPENDITURES	<u>\$ 15,027,000</u>	<u>\$ 14,879,611</u>	<u>\$ 147,389</u>	<u>\$ 15,442,600</u>	<u>\$ 15,263,709</u>	<u>\$ 178,891</u>

*Includes purchase orders outstanding at June 30.

**Delaware Transportation Authority
Transportation Trust Fund**

Schedule of Revenue Bond Coverage

June 30, 2005

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Authority. Further information for the Authority may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

(in thousands)

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Direct Operating Expenses</u>	<u>Net Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Coverage</u>
1996	\$ 229,771	\$ 95,859	\$ 133,912	\$ 67,704	1.98
1997	233,913	105,371	128,542	67,064	1.92
1998	254,887	119,428	135,459	61,761	2.19
1999	272,398	119,816	152,582	66,018	2.31
2000	284,167	118,739	165,428	66,139	2.50
2001	299,962	147,065	152,897	72,852	2.10
2002	297,894	140,940	156,954	74,834	2.10
2003	298,536	156,394	142,142	86,447	1.64
2004	314,205	177,545	136,660	85,816	1.59
2005	324,962	192,738	132,224	93,290	1.42